

Message Text

CONFIDENTIAL

PAGE 01 BRASIL 05064 091651Z

51

ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 OPIC-12 AID-20 L-03 H-03 CIAE-00

INR-10 NSAE-00 RSC-01 EUR-25 EA-11 RSR-01 /114 W

----- 046505

P R 091612Z AUG 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 9070

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 5064

E.O. 11652: GDS

TAGS: EFIN, BR

SUBJECT: EVALUATION OF OPIC PROGRAMS IN BRAZIL

REF: STATE 149655

1. FOLLOWING REPRESENTS COUNTRY TEAM RESPONSES TO QUESTIONS RAISED IN REFTEL BASED PARTIALLY ON CONTRIBUTIONS FROM RIO AND SAO PAULO. LETTERED PARAS BELOW CORRESPOND TO LETTERED PARAS IN REFTEL.

A. WE HAVE NO EVIDENCE THAT IN RECENT YEARS THE AVAILABILITY OF POLITICAL RISK INSURANCE HAS INCREASED THE FLOW OF US INVESTMENT TO BRAZIL. IN THE MID-1960'S THE SITUATION WAS DIFFERENT. AT THAT TIME OPIC'S PREDECESSOR, THE AID INVESTMENT GUARANTEE PROGRAM, CLEARLY WAS A FACTOR IN THE DECISION OF A NUMBER OF US COMPANIES TO GO AHEAD WITH THEIR BRAZILIAN INVESTMENTS. IN THOSE EARLIER YEARS THERE WAS LESS CERTAINTY ABOUT THE STABILITY OF THE ECONOMIC AND POLITICAL SITUATION IN BRAZIL THAN THERE IS NOW. THE INSURANCE PROGRAM HAS NOT HAD A MEASURABLE IMPACT IN DIRECTING INVESTMENT TO ANY PARTICULAR AREA IN BRAZIL. DECISIONS TO INVEST IN THE NORTHEAST ARE MOTIVATED HEAVILY BY BRAZIL'S FISCAL INCENTIVES AND NOT BY POLITICAL RISK INSURANCE. THERE ARE SOME INDICATIONS THAT GOB APPROVES OPIC GUARANTEE PROJECTS MORE READILY WHEN PROJECT IS IN NORTHEAST. WE CONSIDER IT UNLIKELY THAT US FIRMS WOULD

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 05064 091651Z

REQUIRE A FASTER PAYOUT IN ABSENCE OF INSURANCE. MAXIMUM

REMITTANCE PERMITTED BY GOB IS 12 PERCENT OF REGISTERED CAPITAL WITHOUT PENALTY TAXES OF 40 OR 60 PERCENT.

B. GOB HAS SYSTEM OF FISCAL INCENTIVES AND OTHER CONTROLS TO GUIDE INVESTMENT FLOW, INCLUDING THOSE UNDER OPIC PROGRAMS. GOB DOES NOT CONSIDER OPIC PROGRAM AN INTEGRAL PART OF ITS PLAN.

C. BANKS, INCLUDING THOSE IN BRAZIL, DO NOT PROVIDE FINANCING FOR PROJECTS WITHOUT APPROPRIATE SECURITY OR OTHER GUARANTEES. ADEQUATE FINANCING FOR PROJECTS IN BRAZIL IS AVAILABLE FROM LOCAL AND FOREIGN SOURCES. LOANS FOR EIGHT TO TEN YEARS INVOLVE LOANS FROM FOREIGN SOURCES TO LOCAL BANKS FOR REPASSING TO CUSTOMERS IN BRAZIL. AMOUNT AND TERMS OF FINANCING DEPENDS UPON SIZE OF COMPANY, NATURE OF PROJECT AND AMOUNT AND TYPE OF SECURITY. OPIC'S DIRECT LENDING CAPABILITY IS NOT A NECESSARY COMPLEMENT. THERE HAVE BEEN MASSIVE INFLOWS OF FOREIGN FUNDS INTO BRAZIL IN RECENT YEARS. THE GOB FOUND IT DESIRABLE TO EXTEND MINIMUM MATURITY OF THESE LOANS FROM FIVE TO SIX YEARS LAST YEAR, FROM SIX TO EIGHT YEARS IN JUNE 1973 AND TO TEN YEARS IN JULY 1973. EVEN THE EIGHT YEAR TERM DID NOT SIGNIFICANTLY DECREASE THE VOLUME OF FOREIGN LOAN OPERATIONS. LOCAL BANKS WHICH CONTRACT THESE FUNDS ABROAD ARE AUTHORIZED BY THE GOB TO REPASS THE CRUZEIRO PROCEEDS ON SHORTER TERMS WITH A MATURITY OF NOT LESS THAN EIGHTEEN MONTHS.

D. CENTRAL BANK DOES NOT HAVE STRONG INTEREST IN OPIC PROGRAMS BECAUSE THEY DO NOT CONSIDER IT A KEY ELEMENT OF THEIR DEVELOPMENT PROGRAM. CONSEQUENTLY THEY WOULD NOT BE PREPARED TO PROVIDE ANY SUPPORT FOR A CONTINUATION OF THE OPIC PROGRAM. THE CENTRAL BANK DOES NOT APPLY MORESELECTIVE SCREENING PROCEDURES FOR PURPOSES OF INSURANCE. PROJECTS INVOLVING NEW PRODUCTS OR WHICH ARE LOCATED IN DEPRESSED AREAS SUCH AS THE NORTHEAST RECEIVE MORE PROMPT CONSIDERATION.

E. UNDER GOB LOAN AND/OR POLICY LARGE RAW MATERIAL VENTURES ARE EITHER UNDER GOVERNMENT CONTROL(PETROBRAS FOR PETROLEUM) OR ARE JOINT VENTURES BETWEEN PRIVATE FOREIGN AND PUBLIC AND/OR PRIVATE BRAZILIAN GROUPS. AS LONG AS CAPITAL, DOMESTIC AND FOREIGN, CONTINUES TO BE AVAILABLE FOR SUCH VENTURES THE POLITICAL RISK INSURANCE MAY NOT BE NECESSARY. AT THE PRESENT TIME MOST US

CONFIDENTIAL

PAGE 03 BRASIL 05064 091651Z

INVESTORS DO NOT CONSIDER POLITICAL RISK INSURANCE NECESSARY TO COVER THEIR BRAZILIAN INVESTMENTS.

F. OPIC OPERATIONS IN BRAZIL HAVE NOT BEEN SUFFICIENTLY LARGE TO EFFECT MATERIALLY THE RATE OF INVESTMENT FLOW OR ITS DIRECTION IN RECENT YEARS. IT WOULD BE PREFERABLE FOR OPIC TO CONDUCT ITS OPERATIONS IN A MANNER THAT IS CONSISTENT WITH THE ECONOMIC POLICY OBJECTIVES THAT THE GOB WISHES TO ATTAIN.

WITH REFERENCE TO JOINT VENTURES. FORWARD-LOOKING FOREIGN INVESTORS ARE INCREASILY PARTICIPATING IN JOINT VENTURES.

G. IT IS OUR UNDERSTANDING THAT ANUMBER OF OTHER COUNTRIES DO OFFER A POLITICAL RISK INSURANCE BUT WE DO NOT HAVE INFORMATION ON THE ACTUAL USE. SUCH DATA WOULD NOT BE READILY AVAILABLE FROM THE GOB. IF IT IS CONSIDERED ESSENTIAL WE SUGGEST THAT APPROACHES BE MADE TO THE GUARANTEE INSTITUTIONS OF SUCH COUNTRIES AS GERMAY AND JAPAN.
CRIMMINS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BRASIL05064
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS CRIMMINS
Errors: N/A
Film Number: n/a
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730849/aaaabjsq.tel
Line Count: 125
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: STATE 149655
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 16 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16-Jan-2002 by martinml>; APPROVED <28 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EVALUATION OF OPIC PROGRAMS IN BRAZIL
TAGS: EFIN, BR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005